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ORGANIZATION
FOR THE PROMOTION
AND ADVANCEMENT
OF SMALL
TELECOMMUNICATIONS
COMPANIES



OPASTCO

November 23, 1999

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Magalie Roman Salas
Office of the Secretary
Federal Communications Commission
445 12th Street, SW
Room TW-A325
Washington, DC 20554

Re: CC Docket No. 98-147

Dear Ms. Salas:

This letter reports an ex parte presentation made on November 19, 1999 to Chairman William Kennard, Tom Powers, Dorothy Attwood and Dr. Robert Pepper of Chairman Kennard's office regarding broadband deployment in rural America. James Sherburne of United Farmers Telephone Company, Robert Miles of Sunman Telecommunications Corporation, James Forcier of Chazy & Westport Telephone Corp., Robert Riordan of Northeast Telephone Company, Allen Layman of R&B Telephone Company, and John Rose, Kathleen Kaercher and Stuart Polikoff of the Organization for the Promotion and Advancement of Small Telecommunications Company (OPASTCO), described current deployment of broadband in rural areas and discussed possible incentives or disincentives to facilitate the roll-out of advanced services in rural areas.

In the event of any questions about this matter, please communicate with the undersigned.

Very truly yours

Kathleen A. Kaercher
General Counsel

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Broadband Recommendations

Before getting to the suggested incentives, set the stage with the following:

- At the CEO summit, all segments of the industry agreed that broadband to ALL customers in rural areas cannot occur without support. The purpose of the summit was to hear from the different segments of the industry. These segments usually do not agree, so it is extremely notable when they do. The CEOs emphasized the broadband aspects of the Act, and in a broad sense addressed the issue of expanding the definition of universal service to include broadband.
- Even if advanced services are available, market research indicates that most residential consumers are not interested in them until the price falls to about \$25/month, far below cost in rural (and many non-rural) areas. At such prices, the business case for universal deployment is weak.

INCENTIVES

Incentive I: **New and advanced services should not be regulated.** Only the pipe (facility) should be supported by universal service funds.

Incentive II: **Depreciate according to "Internet time."** Permit radical, rapid depreciation of advanced service hardware in order to recover capital investments. This would not only account for the fast obsolescence of high-tech equipment brought about by constant technological breakthroughs, but would also actively encourage plant upgrades which lead to increased service quality.

Incentive III: **Raise the authorized Rate of Return.** Setting the RoR to more closely reflect the uncertainties rural ILECs face will enhance carriers' ability to undertake broadband deployment, which is a very risky investment.

Incentive IV: **Extensive tax credits.** The Commission should lead joint efforts with rural ILECs and hardware manufacturers to petition Congress for extensive tax credits for advanced service hardware purchases and deployment. Data communications drives the new economy, so such tax cuts would pay for themselves over a relatively short period of time.

REMOVE or AVOID DISINCENTIVES

Incentive V:

Lift the threat of burdensome requirements to provide access to all comers at rates below opportunity cost. The same reasoning that led Congress to establish a rural exemption applies to advanced services. Rural carriers should have immunity from advanced service interconnection and line sharing requirements. This should be the case regardless of the status of an ILEC's rural exemption for voice service.

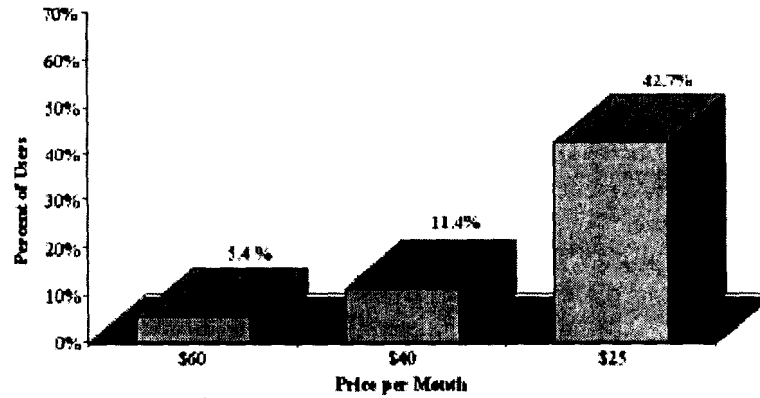
Incentive VI:

Allow rural ILECs to bid on and hold broadband spectrum (such as LMDS) licenses within their service area. By treating small ILECs like large ILECs when this prohibition was imposed, the Commission prevented the companies most interested in serving remote areas with innovative new technologies from doing so. In addition, instead of merely expanding the cellular/PCS spectrum cap for rural carriers, the cap should be lifted altogether.

Incentive VII:

ETCs should receive support in proportion to their costs. If one ETC is providing broadband, and another is only providing voice service, the voice provider faces fewer costs and might therefore win more customers. ETCs which provide broadband should be receive support at levels which allow them to compete

Interest in High-Speed Internet Access



Source: The Strategy Group, Inc.

In the absence of support for high-cost deployment, the business case for deployment is weak if customer demand is low, particularly at rates over \$25.00. If consumers do not demand the service, and companies cannot depend on a high-cost support mechanism, broadband deployment to high-cost residential consumers faces indefinite delays. Competition will not develop where prices remain higher than consumers' ability or willingness to pay.